

HOUSE BILL REPORT

2SHB 2498

As Passed Legislature

Title: An act relating to cluster-based economic development.

Brief Description: Establishing an industry cluster-based approach to economic development.

Sponsors: By House Committee on Appropriations (originally sponsored by Representatives Kilmer, Buri, Morrell, Skinner, Green, Linville, McCoy, Moeller, Chase, Rodne, Conway, Haler, Morris, Ericks and Sells).

Brief History:

Committee Activity:

Economic Development, Agriculture & Trade: 1/17/06, 1/18/06 [DPS];
Appropriations: 1/26/06, 2/4/06 [DP2S(w/o sub EDAT)].

Floor Activity:

Passed House: 2/10/06, 96-2.
Senate Amended.
Passed Senate: 3/1/06, 41-6.
House Concurred.
Passed House: 3/4/06, 95-2.
Passed Legislature.

Brief Summary of Second Substitute Bill

- Directs the Department of Community, Trade and Economic Development to identify industry clusters, working with various entities and to develop strategies to foster the development of the state and regional industry clusters.
- Creates a competitive grant program to assist communities to develop, in partnerships, regional economic development and industry cluster strategies, and to conduct related cluster market strategies.

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, AGRICULTURE & TRADE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by Representatives Linville, Chair; Pettigrew, Vice Chair; Kristiansen, Ranking Minority Member; Skinner, Assistant Ranking Minority Member; Appleton, Blake, Buri, Chase, Clibborn, Dunn, Grant, Haler, Holmquist, Kilmer, Kretz, McCoy, Morrell, Quall, Strow, P. Sullivan and Wallace.

Minority Report: Do not pass. Signed by Representatives Bailey and Newhouse.

Staff: Tracey Taylor (786-7196).

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Economic Development, Agriculture & Trade. Signed by 29 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Alexander, Ranking Minority Member; Anderson, Assistant Ranking Minority Member; McDonald, Assistant Ranking Minority Member; Armstrong, Bailey, Buri, Clements, Cody, Conway, Darneille, Dunshee, Grant, Haigh, Hinkle, Hunter, Kagi, Kenney, Kessler, Linville, McDermott, Miloscia, Pearson, Priest, Schual-Berke, P. Sullivan, Talcott and Walsh.

Minority Report: Do not pass. Signed by 1 member: Representative Chandler.

Staff: Owen Rowe (786-7391).

Background:

A cluster is a geographic grouping of interdependent, competitive companies, their suppliers and supporting institutions. They represent regional specialization and comparative advantage. There is a growing interest in looking at particular industry clusters in Washington to better focus the public support of economic development. This includes looking at the natural clusters to be more responsive in creating an educated and skilled workforce to support the clusters and providing public infrastructure.

Summary of Second Substitute Bill:

The Department of Community, Trade and Economic Development (DCTED) must work with industry associations and organizations to identify regional and statewide industry clusters. This includes conducting focus groups, supporting industry cluster associations, and providing methods of economic communication and information among the firms within the industry cluster. The industry clusters may include aerospace, agriculture, food processing, forest products, business services, financial services, health and biomedical, software, digital and interactive media, transportation and distribution, and microelectronics.

In addition to the groups the DCTED already works with, the DCTED is directed to work with industry and cluster associations and federal and state industries in developing industry cluster-based strategies. On a continual basis the DCTED must evaluate the potential return to the state from devoting additional resources to an industry cluster-based approach to economic development and identifying and assisting additional clusters. In developing industry-cluster based strategies, the DCTED must still use information gathered in each service delivery region. The DCTED may conduct focus group discussions and studies, support the formation of industry cluster associations, and provide methods for communication among firms within the industry clusters. The DCTED must also work with industry clusters, private

organizations, local governments, local economic development organizations, and higher education and training institutions to develop strategies to strengthen Washington's industry clusters. A competitive grant program is created to assist communities to develop, in partnerships, regional economic development and industry cluster strategies and to conduct related cluster market strategies. In administering the grant program, the DCTED must work with an industry cluster advisory committee with equal representation from the Workforce Training and Education Coordinating Board, the State Board for Community and Technical Colleges, the Employment Security Department, business and labor. The industry cluster advisory committee shall recommend criteria for evaluating applications for grant funds and recommend applicants for the grant awards. Grant applicants must include organizations from at least two counties, and may include local government, economic development councils, federally recognized Indian tribes, workforce development councils, and educational institutions. Applicants should also include participants from the local business community. Financial participation of the partner organizations is required.

A grant award may be up to \$100,000 per applicant, except for King, Pierce, Snohomish, and Kitsap counties, who may not receive more than \$100,000 combined. The grant may be used to fund organizational activities necessary to develop the partnership's regional economic development and industry cluster strategies. It may also be used for related marketing strategies. Only 10 percent of the money appropriated for the competitive grant program can be used by the DCTED for administrative costs. The grant program expires June 30, 2007.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: (Economic Development, Agriculture & Trade) The main impetus for this bill was the Prosperity Partnership efforts in the Puget Sound area. The collaboration of governments, government entities and the private sector in developing an economic development plan for the region based on an industry cluster plan is a model that other regions of the state could benefit from. The grant program will provide a targeted investment to encourage economic development planning at the local and regional levels, where budgets are smaller. The best economic development policies do not come from Olympia, but from the grassroots. The industry cluster approach melds well with the DCTED's current approach of targeted industries, matrix teams and action plans. This is a one-time chance to help communities strengthen their local economies.

(With concerns) The DCTED is concerned about the cost of providing technical support to organizations as it is not funded in the Governor's budget.

Testimony For: (Appropriations) The use of industry clusters has become standard nationwide as a way to drive economic growth and economic development. It's a strategy that doesn't just look at specific businesses, but looks at the full cluster from competitors, to suppliers, and educational institutions that help provide trained workers for a cluster industry.

This bill sets up a one-time grant program to get money out at the local level. Economic development happens at the grassroots. The state should help local communities' with strategies for cluster development. The state of Washington has a number of solid technology based clusters and some growing ones, particularly in the software industry, digital media, and biotech. In technology based industries, cluster development helps to recruit talent and attract capital and other companies of a similar nature. I participated in the Prosperity Partnership and felt that it was a very worthwhile exercise and program. It provides a good model for the rest of the state. Please support this bill.

Testimony Against: (Economic Development, Agriculture & Trade) None.

Testimony Against: (Appropriations) None.

Persons Testifying: (Economic Development, Agriculture & Trade) (In support) Representative Kilmer, prime sponsor; Representative Buri; Tim Strege, William Factory Small Business Incubator; Susan Suess, Economic Development Board for Tacoma-Pierce County; and T.K. Bentler, Washington Food Processors Council.

(With concerns) Marie Sullivan, Department of Community, Trade and Economic Development.

Persons Testifying: (Appropriations) Representative Kilmer, prime sponsor; and Lew McMurrin, Washington Software Alliance.

Persons Signed In To Testify But Not Testifying: (Economic Development, Agriculture & Trade) None.

Persons Signed In To Testify But Not Testifying: (Appropriations) None.